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## INTELLIGENCE REPORT

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SUBJECT Economic Information: Cost of Living of Foreign Staff of Various American Companies, Shanghai

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The following report was prepared [REDACTED] at the request of a committee representing nine large American firms in Shanghai. This committee was formed to study the subject of living allowances given the foreign staffs of these companies and to recommend possible further compensation to meet the increased cost of living.

1. In order to meet an urgent need for a basis for formulating company policy in respect to extra compensations to foreign staff to meet the rising cost of living, recourse is made to certain statistical series of known reliability. From these an analogy is drawn which it is hoped will be generally applicable to the problem of adjusting the E.C.L. allowance of U.S. Dollar salaried employees. A minimum basic allowance is developed from which companies may evolve their allowance system for higher salaried employees. Comparative price lists of goods and services commonly used by Americans which tend to support the general presentation are appended.
2. Local staff employees have been placed in a relatively better position to meet the increasing cost of living than have the foreign staff as a result of the use of the Shanghai Municipal Government's monthly Index of the Cost of Living of Chinese workers as an adjusting factor in computing the salaries of local staff, and because of their insistent demands for increases in basic pay. In contrast with the situation before the war, many of the local staff are better paid in terms of U.S. Dollars than are the lower ranks of the foreign staff. Local staff salaries form a much larger proportion of operating expenses than before the war. This is partially because of the fact that compensation to the local staff has followed a cost of living index, while that to foreign staff has been tied to an artificially fixed exchange rate.
3. From Dec. 1945 to November 30 1946 the S.M.G. Chinese Workers Cost of Living Index, which is used as a factor to adjust Chinese salaries, has increased 501%. During the same period the Central Bank of China's Index of Wholesale Prices has increased 402%. During this time, the rate of exchange (taking first the open market rate of CNY\$1,000 to US\$1 in December 1945 and the Central Bank rate as from March 4) has increased 235%, while the purchasing power of the US\$ (based on 1937 as US\$1) has gone down from US\$1.445 in December 1945 to US\$0.181 in November 1946. These changes are shown in the attached table. (Table I).

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4. During this period of rising local costs and falling US\$ purchasing power, the major American companies in Shanghai have followed different, more or less fixed systems of granting living allowances to their foreign staffs. These, with the exception of Company B, have generally failed to keep pace with the rising cost of foreigners' subsistence. The various systems are presented in the following schedule, (Table II) which shows a generally consistent policy in attempting to meet the high cost of living problem of the foreign staff, but comparative rigidity in respect to rising US\$ price trends.

TABLE II

	Company A	Company B	Company C	Company D
RENT	entirely paid by firm	Difference between 1937 and now plus 25% is paid by firm	entirely paid by firm	entirely paid by firm
LIVING ALLOWANCE	Bachelors US\$100 if in mess or \$150. private quarters; married men \$200.; if living in hotels \$250.	Difference between 1937 and now plus 25% (based on US \$105. for bachelors, US\$125. for married men.	Bachelors US\$100. Married men with families here \$200. plus \$50. for each dependent child under 21. Single men: US\$100.	
MEDICAL ATTENDANCE	firm pays medical attendance, inoculations for staff members only, but no major or minor operations.	Difference between present cost in Shanghai and U.S.A. will be paid.	If not exceeding budgeted amount, expenses will be fully reimbursed (which so far was the case). Staff members only.	75% for New York staff and immediate family, except med. supplies, X-Rays, special treatments.
HEATING	Space heaters, property of firm, supplied for employees' homes average of 4 months.	Space heaters, property of firm, supplied for employees' homes.	Reasonable quantity of coal less US\$15. per ton will be borne by firm.	Difference between 1937 and present cost of fuel where previously rent did not include heat; otherwise entirely paid by firm.
KEYMONEY, HOUSEHOLD REPAIRS AND FURNITURE	No provision for key-money; repairs up to US\$2,000. can be amortized as additional rent allowance over a period of two years.	No problem of keymoney has arisen so far. Repair and re-conditioning expenses up to US\$1,000 borne by firm.	Firm pays freight packing (not exceeding \$200.), handling charges, import duty on household effects, not to exceed 1000 cubic feet or US\$1,200.	Normal quantity of household effects will be packed, shipped at firm's expense. Locally bought items will be paid (difference 1937/1946).

(cont.)

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## TABLE II cont. Company A

## Company B

## Company C

## Company D

SEPARATION  
ALLOWANCES

none

Since firm pays entire cost of basic items, no separate allowance on assumption that salary is enough to support family in USA and cover his non-basic expenses here.

Married men in the field whose families receive a flat separate allowance of US\$100. per month. Family of a married man stationed here. are at home are granted an arate allowance of \$125.

TRANSPOR-  
TATION

Transportation is provided as far as business concerned, but not for private purposes except for management.

Mainly carried out by office cars; if not available, business and reasonable private transportation at firm's expense.

Transportation During working time to and from by firm's cars, otherwise subject to personal arrangement. Use of cars for personal purposes permitted, if available. District Managers have own cars, chauffeurs, etc. Privately owned cars are operated under various modifications of above. expense. This problem at present under discussion.

ENTERTAIN-  
MENT

For business purposes by senior members or staff borne by firm, not otherwise.

Initiation fees to American and French Clubs paid by firm. Entertainment for business purposes by officers paid by firm.

No allowances except on firm's business; each case has to be reported to management.

Only on business and subject to management's approval.

\* The firm absorbs 50% of the cost (not exceeding US\$1,200.) less any amount absorbed on shipping household effects as above, in case furniture is bought in China. The company will purchase basic household effects (furniture) in USA to include livingroom set, diningroom set, 2 bedroom sets, a refrigerator, 1 electric stove. They will be charged to the employee at pre-war cost in China and may be amortized by the employee over a period of one year.

5. In contrast with this table, the Shanghai Municipal Government's index of the Cost of Living of Western Foreign Salaried Employees for the years 1936-41 and each month since September 1945 and the amounts of US\$ necessary to purchase fixed amounts of goods and services in Shanghai are given in the following table. (Table III)

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TABLE III:

	Consolidated Index	US\$ Cost of Fixed Amount of Goods and Services in Shanghai at official rate.
	CNC\$	US\$
1936	100.	29.41
1940	278.	27.83
1941	308.	15.40
September 1945	21,231.	42.48
October	35,589.	39.54
November	96,613.	80.51
December	101,566.	72.55
January 1946	135,735.	81.77
February	182,184.	87.59
March	270,052.	133.69
April	273,533.	135.21
May	298,115.	147.58
June	330,123.	163.43
July	373,788.	185.04
August	390,088.	116.44
September	437,401.	130.57
October	478,440.	142.82
November	500,061.	149.27

These figures indicate that the US\$ cost of a fixed amount of goods and services increased by 105.7% from December 1945 to November 1946, reached the highest peak in July 1946, receded somewhat with the change in the exchange rate in August and resumed the upward trend in the months following.

6. It is thus evident that the purchasing power of US\$ salaries had depreciated by 81% in November 1946 as compared with 1936; or by about 90% as compared with 1941. As shown in a previous table, some American companies had made an attempt to meet this situation by various systems of special allowances, but these tended to be too rigid in view of the depreciating purchasing power of the US\$. These systems were unsatisfactory from the standpoint of both the foreign staffs and the companies concerned, because (1) they were inadequate to cover the actual increases in living costs, and (2) financial worries were thus created in the minds of the foreign staff which tended to affect their work.
7. To meet these objections, it is proposed that in addition to supplying quarters or rental allowances and heating, a basic living allowance be established which will be variable, upward or downward, with the average cost of living of American families in the lower salary groups. The object of this system will be to enable the average foreign staff employee to cover his normal expenses for food and ordinary miscellaneous items and yet save as much of his income as before the war. This proposal is suggested by the facts (1) that the average foreign employee in Shanghai before the war spent slightly more than 60% of his consumption expenditure on food and miscellaneous items (24.8% for food including beverages and 14.5% for miscellaneous items including everything other than food, housing and clothing); and (2) that the average foreigner's expenditure on food alone in November 1946 amounted to as much as 124% of his entire prewar consumption expenditure.
8. To illustrate the basic considerations of this plan, the attached table (Table IV) of expenditures is taken from a study of the consumption expenditures of 27 representative American families made by the Industrial & Social Division of the Shanghai Municipal Council over a period of 16 months from October 1939 to January 1941. The 1939-40 figures are based on detailed accounts submitted by

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the 27 families and averaged for the period. The 1946 figures are derived by multiplying the first figures by the differential between the corresponding SMG's indices of the Cost of Living of Western Foreign Salaried Employees for 1940 and November 1946.

TABLE IV

	%	US\$ @ 10	1939-40 CNC\$	Conversion Factor	November 1946 CNC \$	1946 US\$ @ 5000
FOOD	21.84	40.72	407.22	1904	775.346	155.
HOUSING & TAXES*	26.01	48.49	484.86	1011	490.193	***146.
CLOTHING	10.64	19.85	198.46	3171	629.316	126.
MISC.**	41.51	77.40	773.99	1776	1,382.346	276.
	100.	US\$186.46	CNC\$1864.53	Average	CNC\$3,277.201	US\$702.
SURPLUS	17.5 "	40.23 "	402.34	1800		
		US\$226.69	CNC\$2266.87			

\* Includes: Rent, Municipal rates, light and fuel, water, upkeep and repairs

\*\* Includes: Medical (Doctors' and hospital fees), Insurance, Contributions and Club dues, education, tobacco, wages to servants, local traveling expenses, amusement, etc.

\*\*\* US\$ Rentals in Shanghai are usually paid in CNC\$ at the official rate of 3350 or in US\$ notes.

9. Although the basic consumption expenditures for 1939-40 here presented were for an average family of 3.5 persons, the average total income was lower than the average of the lower-salaried foreign employee of the American firms in Shanghai. Moreover, there were fewer children in the families of such American firms' employees, and the minimum consumption schedules of smaller families in a higher income group may, in the absence of direct data, be taken as approximately equivalent to the given averages, especially since families of the employees of American firms were among the 27 contributing to the compilation of these basic statistics. The experience of many people indicates that the 1939-40 consumption schedule given here, was, if anything, well below that of a family of two of any American firm's staff.
10. These consumption expenditures, however, do not include extraordinary family medical care (such as pre-natal and childbirth, or operations), to costs of furniture or repairs for setting up an establishment or transportation costs for more than average minimum personal use of buses, trams, rickshas, occasional taxis or car maintenance. In these respects the average of the 27 American families who were the subject of the SMG's study was admittedly below the standard of employees of the major American companies. Likewise, clothing expenditures of American families were below the level of any other national groups in Shanghai, owing to the fact that the Americans covered in the study habitually bought their major requirements in the States and only purchased necessary replacements in Shanghai. This however, need not affect the conclusions, since that is more than ever the American habit since the war, and no extra allowance need be made on this account.
11. In order for an average lower salaried American employee with a family to subsist at the same level in 1946 as in 1940, he would have to received a US\$ income of from 3-1/9 to 4-1/3 times his 1940 income. This may in fact only be realized by the company providing quarters and covering the remaining difference

in the employee's consumption expenditures with an allowance amounting to a minimum of US\$370. (i.e. approximately twice the total pre-war consumption expenditures in the above table). This figure is derived from the figures in the above table as follows:

FOOD	US\$ 155.	PREWAR SALARY	US\$ 227.
CLOTHING	" 126.		
MISC.	276.		
SAVINGS	40.	HIGH COST OF LIVING	" 370.
	<u>US\$ 597.</u>		<u>US\$ 597.</u>

12. The level of consumption possible in November 1946 with this extra subsidy would not be higher than was supported by the average income before the war, and no additional saving would be possible without sacrifice. Provision of less than this amount would entail drawing on reserves, or sacrifice.
13. With US\$370. as the basic allowance of an average lower-salaried employee as of November 1946, future adjustments in the allowance may be made for any month simply as follows: (1) convert the total CN\$ consumption expenditures in the above table by use of the SMG Consolidated Index of the Cost of Living of Western Foreign Salaried Employees (adjusted to 1940 as base year); (2) convert the resulting CNO\$ into US\$ using the month-end open market rate; (3) deduct the total 1940 US\$ income in the above table; (4) deduct the amount of Housing and Taxes derived as in the above table, thus obtaining the current monthly basic allowance.
14. As has been recognized in previous systems of allowances, staff members living under different circumstances have higher or lower consumption schedules and are therefore entitled to more or less than the basic allowance. If US\$ 370. is taken as the allowance for a married couple, a staff member living singly in a mess where expenses are shared, would probably be able to cover his share of the excess over prewar costs with an allowance of  $\frac{1}{2}$  the basic allowance. A bachelor in private quarters, according to the customary pattern, would no doubt require an allowance of  $\frac{2}{3}$  the basic amount, while at least the full amount would be reasonable for persons living in hotels, where service and food charges are at the maximum. Separation allowances of course are not considered as covered by local HCL allowances. Allowances for transportation, furniture and medical care, for the reasons mentioned above, are also not considered to be covered, and the present system of provision for these exceptions may thus be retained.
15. The consumption schedule of American families presented above may be compared in total with the postwar expenditures of various members of Company C staff, who submitted detailed reports for one month for the purposes of this study. The effect of applying the basic allowance with the suggested variations as mentioned above to the incomes of this group will be appreciated at a glance; it tends in general to substantiate the practicability of the above suggested allowance system. The October 1946 expenditure, exclusive of transportation, rental and medical costs, of various representatives of different salary categories living in various circumstances were as follows:

- |   |   |
|---|---|
| a) Single men-<br>resident in company mess-<br>junior salary classification   | US\$ 350.   |
| b) Married men-<br>maintaining wife and 1 child in<br>USA- resident in small apartment-<br>junior salary classification | 781. (includes US\$250. for<br>maintenance of family<br>in USA) |

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c) Married men- maintaining wife in USA- resident in small apartment- semi-senior salary classification	US\$ 795.
d) Married men- maintaining wife and 1 child in USA- senior salary classification	740.
e) Married men- maintaining wife and 1 child in China- resident in furnished house- senior salary classification	1,079.
f) Married men- maintaining wife in China- resident in small house- senior salary classification	1,088.
g) Married men- maintaining wife and 3 children in China- resident in fairly large house- senior salary class	1,097.

16. It is suggested that one half a basic allowance applied to the lowest salaried men above and a graduated scale plus special allowances for transportation and medical allowances for men in higher salary groups, as outlined above, would adjust these incomes to actual expense requirements.

17. In Table V, attached, certain examples are given to illustrate the general price level in various categories of goods and services. In some cases, e.g., imported canned foods, prices are less in terms of US\$ than six months ago, but rises in costs of local products and services have more than compensated those few decreases. Wages have advanced especially sharply, while the risks of doing business in an inflationary market and the insecurity of property and life in over-crowded Shanghai have added to the costs of all items. In this connection insurance rates are especially significant as affecting the lives and pocket-books of all members of the community. Athletic activities have in some cases become prohibitively expensive and they are listed here, not because they are generally indulged in, but to complete the general picture. The average consumption of these goods and services by the lowest American salary group is included in the "Miscellaneous" item in the table of Average Consumption Expenditures given above, and the prices as given below, are merely explanatory of the present level of prices of goods and services in common consumption in Shanghai.

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COST OF LIVING AND WHOLESALE PRICE INDICES  
PURCHASING POWER OF THE U.S.\$, OFFICIAL AND OPEN MARKET  
RATES OF EXCHANGE, AND U.S. COST OF ARTICLES OF COMMON  
CONSUMPTION AMONG FOREIGNERS,  
SHANGHAI, JANUARY - NOVEMBER 1946.

	SMG Workers Index of Cost of Living (1936=100)	Percent Increase over Previous month	Central Bank Index of wholesale Prices (1937=100)	Percent Increase over previous month	Central Bank Rate of Exchange	Percent Increase over previous month	Open Market Rate of Exchange	Percent Increase over previous month	Cost of Selected List of Articles of Common Consump- tion among For- eigners	Purchasing Power of U.S.\$ (1937= US\$1.)
December 1945	94,507		(108,500)		(1400)		1400			US\$0.445
January 1946	106,245	12	(133,200)	(23.0)			1660	18.6		.400
February	184,573	74	239,800	(80.0)			2080	25.3		.265
March	275,422	49	274,650	14.5	2020		1930	-7.2		.216
April	269,430	-2	336,780	22.6	2020		2470	27.9		.175
May	409,578	52	415,860	23.5	2020		2330	-5.7	26.97	.143
June	404,065	-1	370,500	10.9	2020		2650	13.7	33.00	.160
July	449,420	11	422,500	14.0	2020		2485	-5.2	35.86	.140
August	453,675	1	482,489	14.2	3350	65.8	3330	34.0	22.71	.204
September	496,739	9	529,025	9.7	3350		4010	20.4	27.84	.186
October	521,556	5	537,766	1.7	3350		4200	4.7	30.55	.183
November	568,464	9	549,888		3350		4950	17.9	31.15	.181
Dec. to Nov. 1945 1946	501		Dec. to Nov. 1945 1946	402.2	Dec. to Nov. 1945 1946	140	Dec. to Nov. 1945 1946	253.6		

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TABLE V: PRICE LIST OF ARTICLES OF COMMON CONSUMPTION AMONG AMERICANS IN SHANGHAI  
(CNC\$ per lb. unless otherwise noted)

<u>Vegetables</u>	<u>Nov. 1941</u>	<u>March 1946</u>	<u>Nov. 1946</u>
Carrots	0.45	100.	700.
Cauliflower	0.90	1,200.	6,000.
White beans	0.30	300.	600.
Tomatoes	0.97	700.	1,800.
Celery (native)	0.11	700.	1,000.
Lettuce ( " )	0.32	800.	1,300.
Beets	0.39	300.	500.
Onions	0.15	450.	800.
Green peas	0.80	800.	1,000.
Potatoes (Irish)	0.47	200.	300.
String beans	0.58	500.	800.
Water chestnuts	0.35	150.	3,000.
Bamboo shoots	2.40	1,400.	2,000.
Leeks	0.15	100.	400.
Turnips	0.17	300.	500.
Spinach	0.18	100.	300.
<u>Meat, fowl, fish, eggs, etc.</u>			
Bacon	5.70	1,600.	5,000.
Ham, boiled	8.00	2,000.	6,000.
Pork	4.18	1,200.	4,400.
Soupmeat	2.76	600.	1,600.
Calf liver	2.91	1,400.	3,000.
Leg of lamb	3.20	900.	1,800.
Lamb chop	3.16	800.	1,800.
Chicken	3.49	1,600.	3,500.
Pillet of beef	7.74	2,000.	3,200.
Beef steak	4.50	900.	2,000.
Veal steak	7.00	2,000.	4,000.
Clams (each)	2.50	500.	1,200.
Mandarin Fish	1.89	1,800.	3,000.
Eggs (per doz.)	4.92	1,080.	3,600.
Lard (unfried)	3.28	980.	3,000.
Peanut oil	2.14	700.	1,600.
Coffee (Maxwell)	11.20	7,750.	3,000.
Salt	0.84	1,200.	400.
Sugar (native, white)	2.29	1,000.	3,000.
Butter	9.65	5,600.	8,000.
Evaporated Milk (12 oz.)	3.54	1,500.	2,000.
Klim	41.00	4,500.	7,000.
Bread (white)	1.40	450.	800.
Flour (wheat)	1.19	300.	600.
Rice	1.21	225.	600.
<u>Fruits</u>			
Oranges (Mandarin)	1.69	600.	2,000.
Apples	1.65	1,000.	2,000.
Bananas	1.59	700.	1,000.
Lemons (each)	1.56	400.	500.
<u>Miscellaneous</u>			
Lamp bulb (40 watt, ea)	1.73	2,400.	3,600.
Kindling (catty)	0.20	30.	100.
Matches (box)	0.30	460.	500.

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Table V (cont.)

	<u>March 1946</u>	<u>Nov. 1946</u>
Cook's salary	60,000	200,000
Chauffeur's salary	90,000	350,000
Taxi 20 minutes	2,500	6,000
Haircut	400	2,000
Movie ticket	2,000	4,000
Man's shirt	26,000	50,000
Meal at American Club	2,200	4,500
Dinner at French Club	3,500	7,500
Dinner at Cathay Hotel	5,000	12,500
One double bed (new)	1,500,000	5,000,000
One studio couch	300,000	1,200,000
One blackwood desk	350,000	1,500,000
Y.M.C.A. membership per month		US\$ 10.
French Club Tennis season		CN\$100,000
" " Swimming "		110,000
" " Badminton "		110,000
Maintenance of pony per month	<u>Nov. 1940</u>	US\$125.
Initiation Fee American Club	US\$50.	" 100.
" " French Club	" 50.	" 150.
Monthly dues American Club	" 2.	" 5.
Monthly dues French Club	CN\$25.	CN\$ 36,000
Fire & Burglary Insurance on household effects		1-1/10%
Auto ins. Fire Theft & Collision, 2% for 6 mos. on market value (US\$6500. on lower priced cars, i.e. Ford) equals		US\$130.
Public Liability Risk CN\$10,000,000. 6 mos.		CN\$170,000

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